SNR & COMPANY
CHARTERED ACCOUNTANTS

GST BULLETIN

JULY 2026

Delhi, Pune, Bangalore

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- Judicial Updates

1. Section 16(5) Does Not Permit Re-availment of Reversed ITC: WB AAR.

Case of : Eastern Coalfields Ltd
Decision by : West Bengal Advance Ruling
Date of Ruling : 12th June 2026

Facts:

- Eastern Coalfields Ltd. (ECL) entered into a contract with M/s China Coal Overseas Development Co. Ltd. (CODCO) for a longwall mining project for extraction of coal.
- With ECL's approval, CODCO assigned its rights and obligations under the contract to M/s Gayatri Projects Ltd. (GPL).
- GPL raised invoices directly on ECL in Indian currency for services rendered during January, February, and March 2020. ECL availed Input Tax Credit (ITC) on these invoices in its GST returns and sought an Advance Ruling regarding the admissibility of such credit.
- The West Bengal AAR initially held that the ITC was inadmissible and directed ECL to reverse the credit, which ECL subsequently did. GPL challenged the ruling before the Calcutta High Court, which set aside the AAR order and remanded the matter for fresh consideration.
- Upon rehearing, the AAR again held that ECL was not entitled to ITC on GPL's invoices. Meanwhile, Section 16(5) of the CGST Act was inserted retrospectively, extending the time limit for availing ITC for FYs 2017-18 to 2020-21 up to 30 November 2021.
- ECL contended that since the disputed ITC related to January–March 2020 and had been availed through returns filed before 30 November 2021, the previously reversed ITC had become eligible for restoration and could be re-availed.

Issue:

- Whether ECL, after having reversed ITC pursuant to an earlier AAR order, could re-avail the same ITC on the basis of the retrospective insertion of Section 16(5) of the CGST Act, which extended the time limit for availing ITC for certain financial years.

Court Observation

- The West Bengal AAR held that ECL was not entitled to re-avail the reversed ITC. The AAR observed that Section 16(5) merely provided retrospective relaxation from the time limit prescribed under Section 16(4) and did not create a fresh opportunity to reclaim ITC that had already been reversed.
- The authority further held that re-availment of the reversed ITC would effectively amount to a refund of ITC. Reliance was placed on Section 150 of the Finance Act, 2024, which specifically provides that no refund shall be granted for tax paid or ITC reversed that would not have been so paid or reversed but for the earlier legal position.

- The AAR rejected ECL's argument that the term 'refund' should be interpreted narrowly with reference only to Section 54 of the CGST Act. It held that such an interpretation would make the expression 'ITC reversed' in Section 150 meaningless and lead to absurd results.
- The authority emphasized that the legislature clearly intended to prevent restoration or refund of ITC that had already been reversed under the earlier legal regime.
- Accordingly, the AAR concluded that any reclaim of ineligible and reversed ITC is practically synonymous with a refund and is barred under Section 150 of the Finance Act, 2024.

Full Judgement: Eastern Coalfields Ltd

SNR's Take

This ruling highlights the distinction between extension of the time limit for availing ITC and revival of ITC that has already been reversed. The retrospective insertion of Section 16(5) was intended to provide relief to taxpayers who had not availed eligible ITC within the prescribed time, but the AAR interpreted it as not granting a fresh right to reclaim credit that had already been surrendered.

2. Courts Cannot Override GST Law to Waive Interest or Permit Revised Returns.

Case of : Sadguru Infratech Pvt Ltd
Decision by : Karnataka High Court
Date of Ruling : 10th June 2026

Facts:

- Sadguru Infratech Pvt. Ltd. was engaged as a sub-contractor to execute works contract relating to the construction of the canal distribution system for the Basaveshwar (Kempwad) Project under the VAT regime.
- After the introduction of GST, the applicable tax on the works contract increased to 18% from 1 July 2017 to 21 August 2017 and thereafter to 12%, resulting in an additional tax burden on the assessee.
- The assessee delayed filing its GST returns and payment of GST. Consequently, the Revenue issued notices demanding interest on the delayed payment of tax.
- The assessee approached the Karnataka High Court, contending that the taxability of works contracts entered into before the implementation of GST was already pending consideration before the Court.
- The Single Judge granted relief by permitting the assessee to file or amend returns, waiving interest, penalty, and limitation for filing returns, restraining the Revenue from taking coercive action, and directing the employer to reimburse the additional GST liability arising due to the implementation of GST.
- Aggrieved by these directions, the Revenue filed an appeal before the Division Bench of the Karnataka High Court.

Issue:

- Whether the High Court, in exercise of its writ jurisdiction, can direct the waiver of statutory interest, penalty, and limitation under the GST law and permit filing or revision of returns contrary to the provisions of the GST statute.

Court Observation

- The Karnataka High Court held that the liability to pay GST, along with the corresponding interest for delayed payment, is governed entirely by the provisions of the GST statute.
- Interest on delayed payment of tax arises automatically by operation of law and is mandatory unless the statute itself provides for its waiver or reduction.
- Relying on the Supreme Court's decision in Pratibha Processors, the Court observed that neither the tax authorities nor the High Court can waive or reduce statutory interest in the absence of any enabling provision under the law.
- Similarly, the Court cannot permit filing or revision of GST returns in a manner contrary to the statutory framework or extend the limitation period prescribed under the Act.
- The Court further clarified that reimbursement of the additional GST burden is purely a contractual matter between the sub-contractor and the main contractor (or employer). Such contractual disputes cannot affect the statutory liability of the assessee to pay tax, interest, or penalty to the Revenue.
- Accordingly, the directions issued by the Single Judge waiving interest, penalty, limitation, and permitting revised returns were held to be unsustainable and were set aside.
- However, the direction regarding reimbursement was clarified to operate only between the contracting parties and not against the tax authorities.

Full Judgement: Sadguru Infratech Pvt Ltd

SNR's Take

This judgment reinforces that interest on delayed payment of GST is a mandatory consequence of delayed compliance and arises automatically by operation of law. Disputes relating to reimbursement of tax between private parties cannot alter or postpone the taxpayer's statutory obligations towards the Revenue. The decision highlights the importance of timely GST compliance and confirms that courts cannot grant blanket waivers of interest, penalty, or procedural requirements in the absence of statutory authority.

3. GST Transition Costs on Works Contracts Are Contractual, Not Statutory Liability of State.

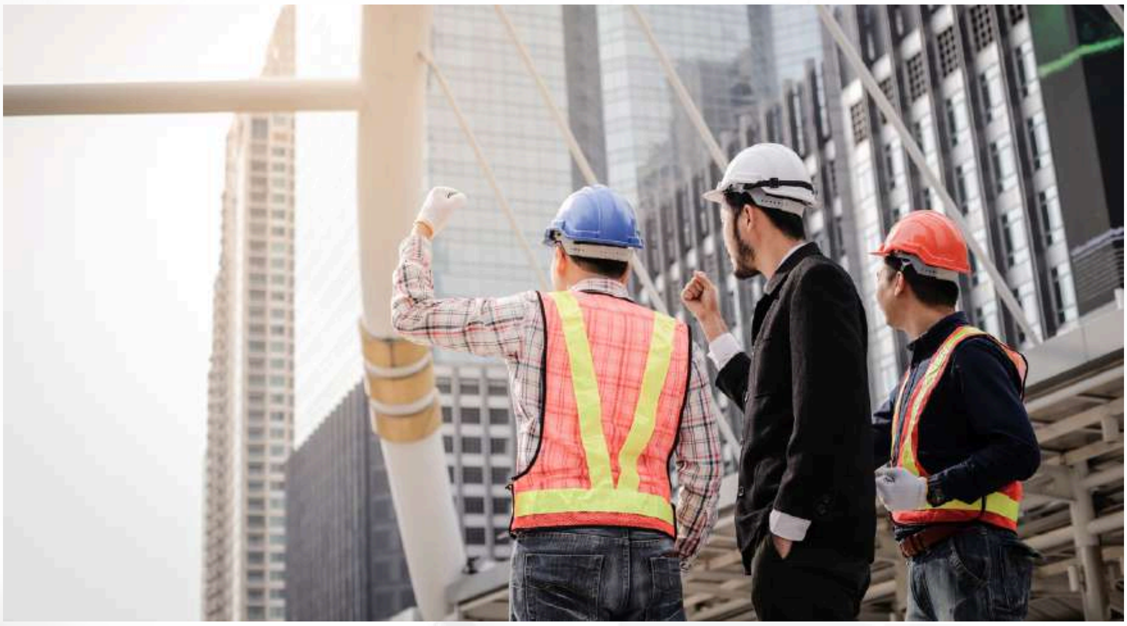
Case of : Unique Constructions & Ors
Decision by : Karnataka High Court
Date of Ruling : 06th June 2026

Facts:

- The writ petitioners (Unique Constructions and other contractors) were contractors who had been awarded works contracts before and around the implementation of the GST regime on 1 July 2017.
- They contended that the Schedule of Rates (SoR) applicable under the earlier Karnataka Value Added Tax (KVAT) regime did not account for the additional GST liability, resulting in an increased tax burden after the introduction of GST.
- The contractors sought reimbursement of the differential GST amount. The Single Judge, relying on the earlier decision in Sri Chandrashekaraiah, allowed the writ petitions and directed reimbursement of the GST amounts.
- The State challenged this order, arguing that it could not be held liable for such reimbursement and that the Court could not direct filing of revised GST returns beyond statutory timelines or waive interest, penalty, and limitation prescribed under GST law.

Issue:

- Whether the State Government or GST authorities are liable to reimburse the incremental GST burden borne by contractors due to the transition from the KVAT regime to GST, and whether the High Court can direct tax authorities to permit revised GST returns or waive statutory interest, penalty, and limitation for such claims.



Court Observations

- The Karnataka High Court partly allowed the State's appeal and held that the dispute regarding reimbursement of incremental GST is purely contractual in nature and lies between the contractor and the employer with whom the works contract was executed.
- The Court observed that contractual terms cannot override or modify the statutory provisions governing the levy, assessment, recovery, and enforcement of GST under the CGST, SGST, and IGST Acts.
- It further held that courts cannot issue directions permitting filing of revised GST returns beyond the statutory time limits or grant waivers of interest, penalty, and limitation contrary to the GST legislation. Since the dispute related only to reimbursement of the additional tax burden under the contract, no directions could be issued against the State Government or GST authorities.
- Accordingly, the Court clarified that any direction for reimbursement would bind only the concerned employer and not the State or tax authorities, and set aside the Single Judge's order to the extent it imposed liability on them.

Full Judgement: Unique Constructions & Ors

SNR's Take

This judgment reinforces the distinction between contractual obligations and statutory tax liabilities under the GST regime. While contractors may be entitled to reimbursement of additional GST incurred due to changes in tax laws, such entitlement must arise from the terms of the works contract and be enforced against the employer rather than the State or tax authorities. The decision also emphasizes that courts cannot relax or override statutory provisions relating to GST compliance, including return filing timelines, interest, penalties, and limitation periods.

4. Knowledge and Participation in GST Fraud Sufficient for Penalty on Partners.

Case of : Manoj Ramkishan Agrawal
Decision by : Gujarat High Court
Date of Judgement : 17th June 2026

Facts:

- The petitioners were partners of a partnership firm against whom penalties were imposed under Sections 122(1A) and 122(3) of the CGST Act for their alleged involvement in fraudulent GST activities.
- The GST authorities found that the firm had generated fake tax invoices and e-way bills without any actual movement or supply of goods, fraudulently availed Input Tax Credit (ITC), and routed funds through hawala channels.
- The investigation relied upon statements of the partners, forensic examination of mobile phones, WhatsApp conversations, bank account analysis, and other documentary evidence.
- Challenging the penalty order, the partners filed a writ petition contending that no specific findings had been recorded against them individually, principles of natural justice had been violated, and separate penalties could not be imposed upon the partners when the partnership firm had already been penalized.

Issue:

- Whether penalties imposed on the partners under Sections 122(1A) and 122(3) of the CGST Act were legally sustainable despite the partnership firm already being penalized, and whether the adjudication order suffered from lack of specific findings or violation of principles of natural justice.

Court Observations

- The Gujarat High Court dismissed the writ petition and upheld the penalties imposed on the partners. The Court observed that the investigation disclosed a well-organized fraud involving multiple entities, wherein fake invoices and e-way bills were issued without actual supply of goods for wrongful availment of ITC.
- The evidence, including statements of the partners, forensic examination of electronic devices, WhatsApp chats, and financial transactions, clearly established that invoices were procured through brokers and funds were circulated through bank accounts before being withdrawn in cash after deducting commission.
- The Court further noted that the adjudicating authority had separately examined the role of each partner and recorded detailed findings regarding their knowledge, consent, and active participation in the fraudulent transactions.
- Interpreting Section 122(1A) of the CGST Act, the Court held that any person who retains the benefit of specified fraudulent transactions or at whose instance such transactions are carried out is independently liable for penalty.
- The Court found no violation of the principles of natural justice or absence of reasons in the adjudication order. It also observed that factual disputes, including the question of retrospective applicability of Section 122(1A), could appropriately be raised before the appellate authority under Section 107 of the CGST Act rather than in a writ petition. Accordingly, the writ petition was dismissed.

Full Judgement: Manoj Ramkishan Agrawal

SNR's Take

This judgment reinforces that individual partners cannot escape liability merely because a partnership firm has already been penalized under the GST law. Where the tax authorities are able to establish, through cogent evidence, the personal involvement, knowledge, and active participation of partners in fake invoicing or fraudulent ITC claims, separate penalties under Section 122(1A) may validly be imposed.

5. Liquidated Damages Recovered from Transporters Not Liable to GST.

Case of : Pon Pure Chemical India Pvt Ltd
Decision by : Gujarat Advance Ruling
Date of Ruling : 24th June 2026

Facts:

- Pon Pure Chemical India Pvt. Ltd., a manufacturer of chemicals, engaged transporters for the delivery of its goods.
- During transportation, the company suffered losses due to shortages beyond permissible limits, leakages, quality deterioration, colour defects, tanker rust, theft or pilferage, delayed delivery, and damage during loading, unloading, or transit.
- As per the contractual terms, the company recovered compensation or liquidated damages from the transporters for such losses. The applicant sought an advance ruling on whether these recoveries constituted consideration for a supply of services under Paragraph 5(e) of Schedule II of the CGST Act and were therefore liable to GST.

Issue:

- Whether compensation or liquidated damages recovered by the applicant from transporters for transit losses, shortages, damages, delayed delivery, and other contractual breaches constitute consideration for a supply of services under Section 7 read with Paragraph 5(e) of Schedule II of the CGST Act, thereby attracting GST.

Court Observation

- The Gujarat AAR held that the amounts recovered by the applicant from the transporters were purely compensatory in nature and did not represent consideration for any supply of goods or services.
- It observed that the recoveries were made to compensate the applicant for losses or damages suffered due to the transporters' breach of contractual obligations and not because the applicant had agreed to tolerate such breaches or undertake any independent obligation.
- The Authority relied upon CBIC Circular No. 178/10/2022-GST, which clarifies that damages paid solely to compensate an aggrieved party for loss or injury caused by breach of contract do not amount to consideration where there is no express or implied agreement to tolerate the breach.
- It further referred to CBIC Circular No. 245/02/2025-GST and decisions of the Gujarat AAAR in GSPC and JBM Ecolife Mobility, as well as the Telangana AAAR in Achampet Solar, which consistently held that compensation for contractual breaches does not constitute an independent taxable supply.
- Accordingly, the AAR concluded that the recoveries lacked the essential elements of consideration and reciprocity and, therefore, were not liable to GST under Section 7 read with Paragraph 5(e) of Schedule II of the CGST Act.

Full Judgement: Pon Pure Chemical India Pvt Ltd

SNR's Take

This ruling reaffirms the settled principle that compensation or liquidated damages recovered for breach of contractual obligations are not automatically subject to GST. Where such payments merely compensate the aggrieved party for actual loss or damage and there is no separate agreement to tolerate an act or provide any independent service, they do not qualify as consideration for a supply.

Circulars/ Notification

CBIC Clarifies Jurisdiction in Cases of GST Registration Migration

CBIC has issued Circular No. 255/01/2026-GST dated 25 June 2026 to clarify jurisdictional issues when a taxpayer's Principal Place of Business changes, resulting in migration to another GST jurisdiction. It clarifies that any action validly initiated by the transferor jurisdictional officer before the migration remains legally valid. However, all subsequent proceedings, including adjudication, implementation of orders, recovery, appeals, and consequential actions, must be undertaken by the transferee jurisdictional officer. The transferor officer cannot initiate fresh proceedings after the taxpayer has migrated and must instead refer any new issues to the transferee jurisdiction. The circular ensures continuity of proceedings and removes uncertainty regarding the authority competent to act after a change in jurisdiction.

Delhi GST Rules Amended to Introduce Temporary Identification Number (TIN)

The Delhi Government has notified the Delhi Goods and Services Tax (Amendment) Rules, 2025, aligning the DGST Rules with recent amendments under the CGST Rules. A new Rule 16A has been inserted, empowering the proper officer to allot a Temporary Identification Number (TIN) to persons who are not liable for GST registration but are required to make payments under the Act. The amendments also revise Rule 19 and Rule 87 to facilitate implementation of the new mechanism. Form GST REG-12 has been substituted to provide separate formats for temporary registration and TIN allotment. Persons granted temporary registration must apply for regular GST registration within 90 days. The amendments came into force on 21 May 2026, unless a different effective date is specifically notified.

GSTN Extends Timeline for Mandatory "Ship To GSTIN" and Voluntary E-Way Bill Closure

GSTN has extended the implementation date for two key E-Way Bill functionalities from 15 June 2026 to 1 August 2026. These include the mandatory capture of "Ship To GSTIN" in Bill-To/Ship-To transactions and the Voluntary Closure of E-Way Bill facility. The extension has been granted following representations from trade and industry seeking additional time for system modifications, API/ERP integration, testing, and master data updates. Taxpayers, GST Suvidha Providers (GSPs), ERP providers, and other stakeholders are advised to complete the necessary system changes and operational readiness before the revised implementation date.

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OUR LOCATION

DELHI

A-15, Second Floor, Hauz Khas,
New Delhi- 110016

Tel: +91-11 41655801, 41655802

PUNE

B 609, Nyati Empress,
Viman Nagar, Pune,
Maharashtra – 411014 (India)

Ph: +91-20-45104304

BANGALORE

No. 5A, Second Floor, 6th Main,
KHB Colony, Basaveshwaranagar,
Bangalore - 560079

Tel: +91 80 42064178

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